

City of National City Sewer Rate Study

City Council Meeting

October 3, 2017

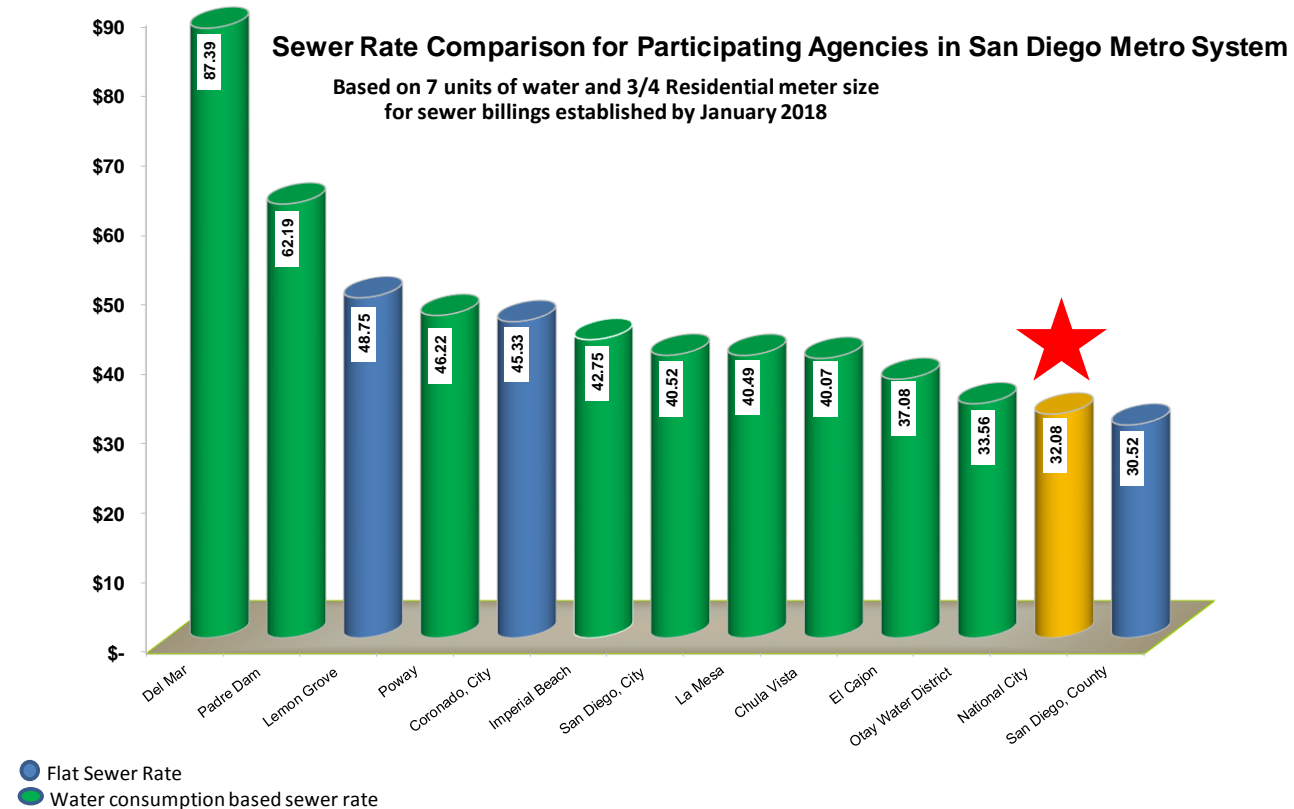
Background

- Last National City Rate Study: 2003
 - Adopted rates for FY 2003 through FY 2006
 - No sewer service charge adjustments since 2006
 - FY 2018 rates are the same as FY 2006 rates for all users

Average Metro
FY 2018 Monthly
Rate: \$50.82/month

National City 38%
lower than Average
Metro FY 2018 Rate

FY 2010 San Diego
Administrative
Protocol stabilized
Metro rates for eight
years



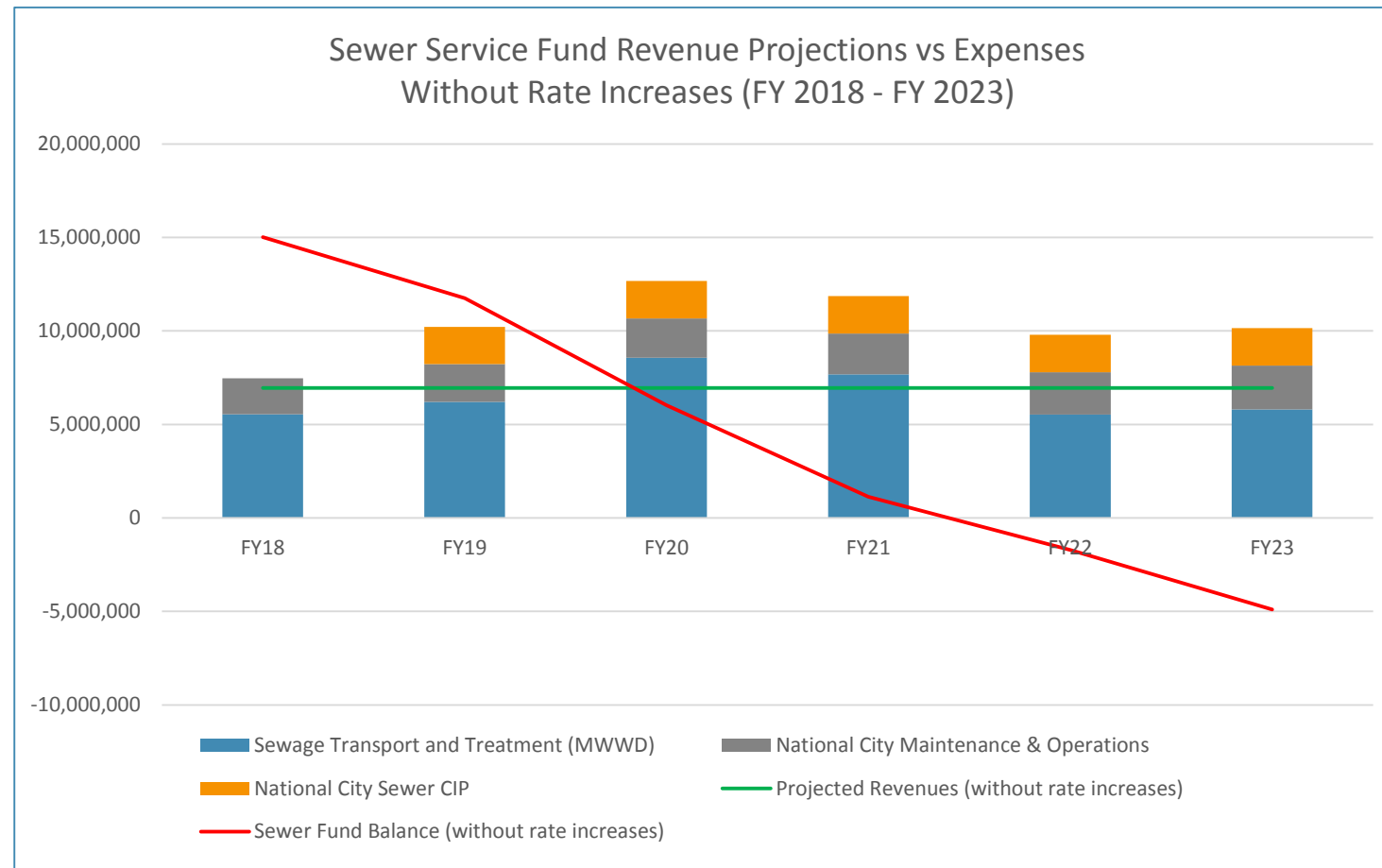
What Has Changed?

- City of San Diego began planning for the Pure Water Program in FY 2015
 - San Diego provided Pure Water Program (PWP) planning, design, and construction costs through FY 2022 for Phase 1 of PWP in September 2016
 - Many Participating Agencies (PA's) prepared updated rate cases in FY 2017 in response to projected sharp increased costs for PWP
 - Metro annual charges to PA's increased above Protocol starting in FY 2018 (current fiscal year)
 - San Diego using only pay-as-you-go from PWP CIP until FY 2020, causing step increases in annual PA costs
- City of National City Sewer Master Plan (2011) identified average of \$2 million in annual capital needs over the next 10 years.
- CIP Needs Assessment presentation made to City Council on Feb 28th, 2017

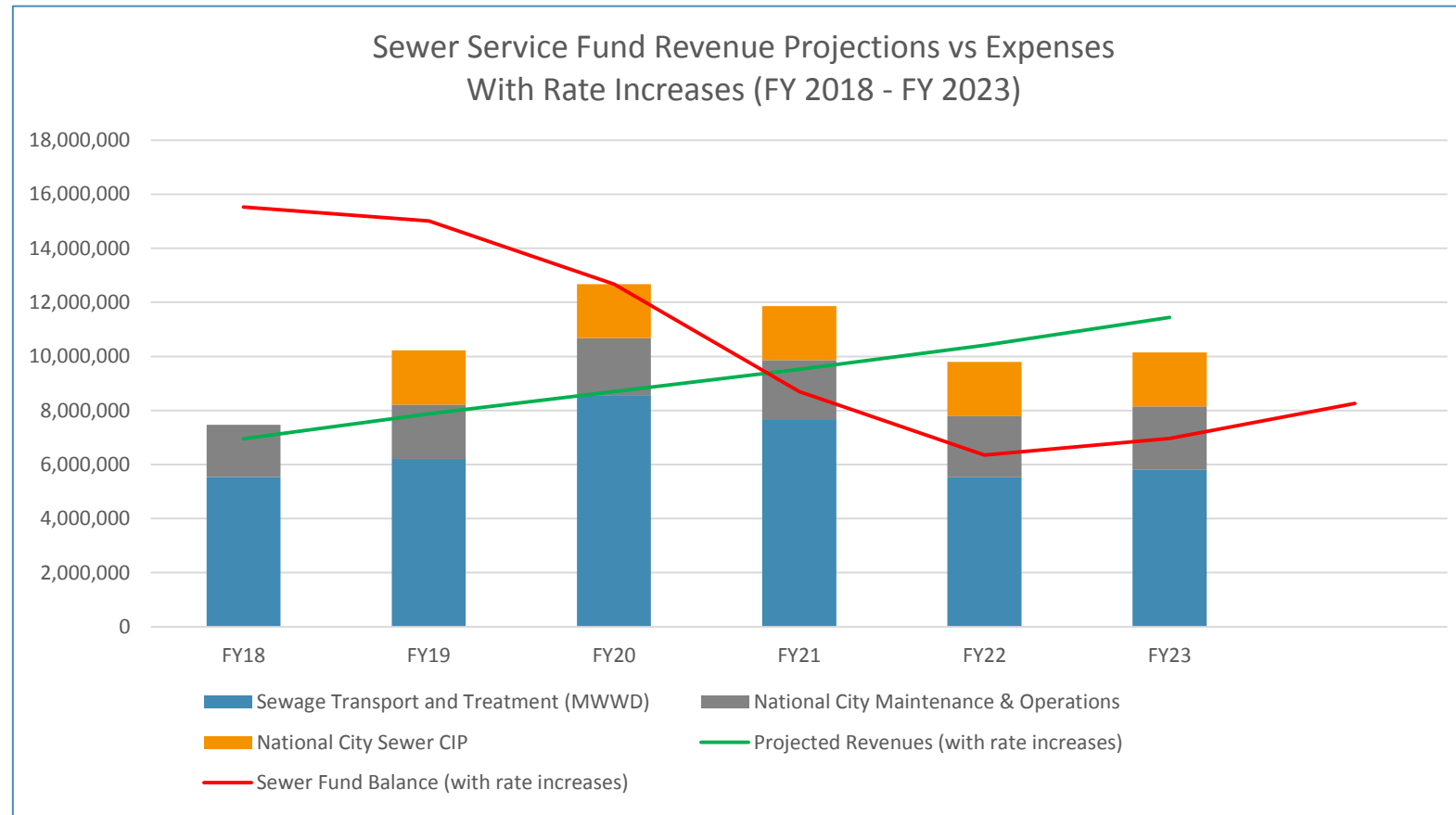
Current Metro Projections

	FY18	FY19	FY20	FY21	FY22	FY23
Metro Low	\$5,520,749	\$6,187,843	\$ 8,553,739	\$7,662,714	\$5,511,370	\$5,786,939
Metro High	\$6,101,880	\$6,839,195	\$10,264,486	\$9,195,257	\$6,613,645	\$6,944,327
Difference	\$ 581,131	\$ 651,352	\$ 1,710,747	\$1,532,543	\$1,102,275	\$1,157,389
% Increase	11%	11%	20%	20%	20%	20%

Sewer Service Fund Revenue Projections vs Expenses – Without Rate Increases



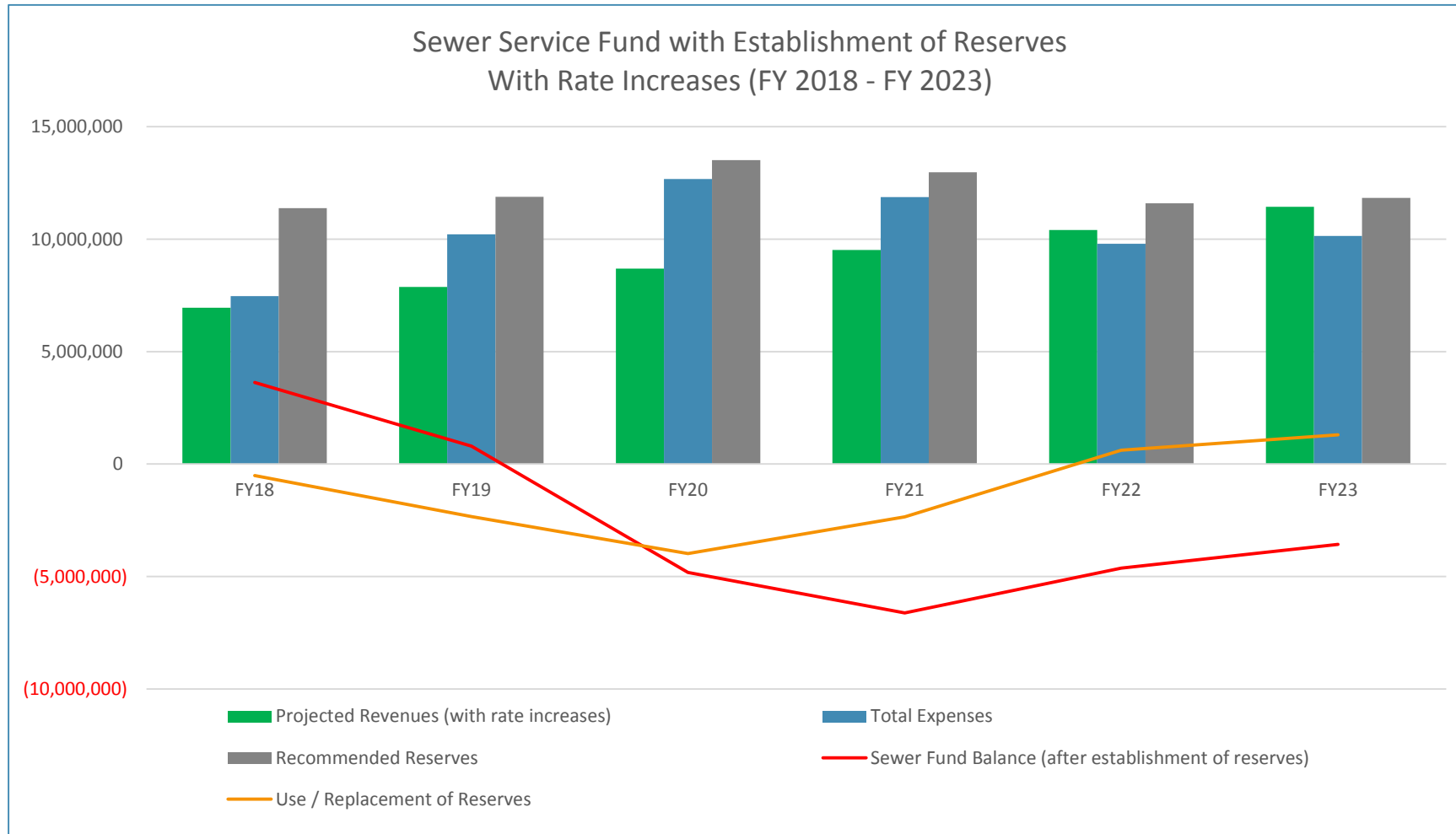
Sewer Service Fund Revenue Projections vs Expenses – With Proposed Rate Increases



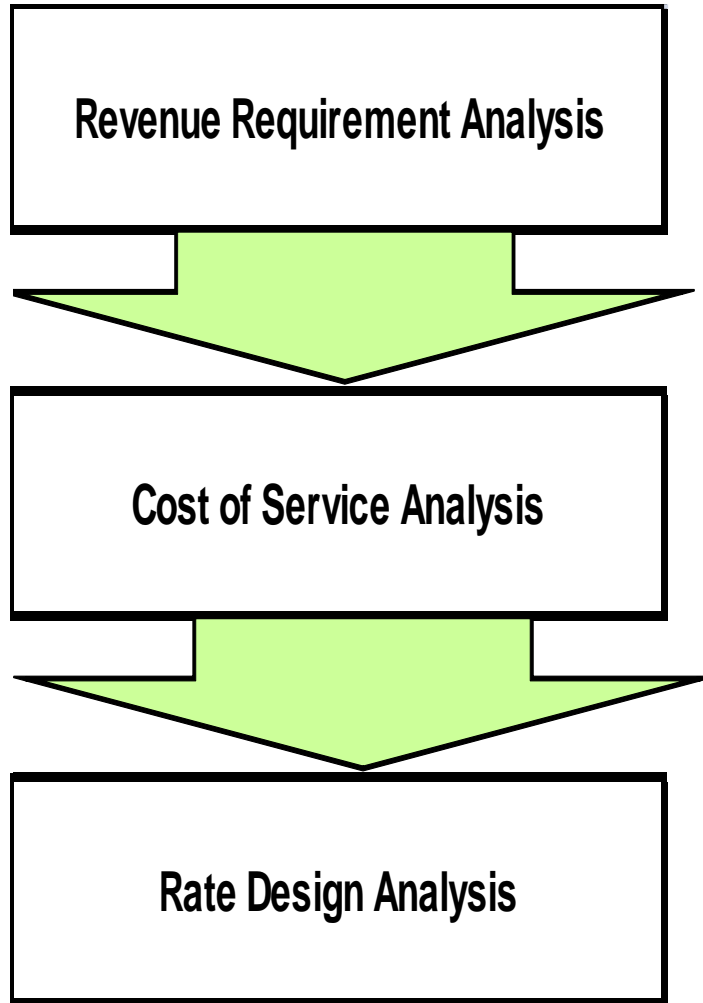
Recommended Reserve Policy

Operations/Cash Flow Reserve	The operating reserve provides working capital for-day-to-day operations and helps to absorb fluctuations in cash balances due to routine difference in revenue and expense cycles. A 50% cash flow reserve is recommended.
Metro Cash Flow Reserve	It is recommended that the City establish a Metro Cash Flow Reserve in this amount of \$4.4 million to be used to offset unplanned cost increases from the Pure Water Program.
Emergency/Natural Disaster Reserve	Recent historic events such as Hurricanes Harvey & Irma have only emphasized the need for an agency to have additional monies set aside to pay for unforeseen events. It is recommended that this reserve be established at a minimum of 60-days of operating cash.
Capital Expansion and Replacement Reserves	The expansion and replacement reserves provides funding for replacement, repair, or rehabilitation of wastewater infrastructure due to routine capital project planning or in the event of catastrophic failure of a major system asset.

Sewer Service Fund With Establishment of Reserves – With Proposed Rate Increases



Rate Study Process



Compares the sources of funds (revenue) to the expenses of the utility to determine the overall rate adjustment required

Allocates the revenue requirements to the various customer classes of service in a "fair and equitable manner"

Considers both the level and structure of the rate design to collect the target level of service

Long Range Financial Plan: Establishment & Use of Reserves

5	Total Revenue	\$ 6,957,939.32	\$ 7,881,478.71	\$ 8,696,609.30	\$ 9,521,184.34	\$ 10,409,369.16	\$ 11,443,792.61
12	Total Expenses	\$ 7,473,749.71	\$ 10,221,478.71	\$ 12,671,609.30	\$ 11,866,184.34	\$ 9,794,369.16	\$ 10,148,792.61
13	Fund Balance Prior to Reserves	\$15,014,450.61	\$ 12,674,450.61	\$ 8,699,450.61	\$ 6,354,450.61	\$ 6,969,450.61	\$ 8,264,450.61
14	Reserve Targets:						
15	Operations/Cash Flow	\$ 3,736,874.86	\$ 4,110,739.36	\$ 5,335,804.65	\$ 4,933,092.17	\$ 3,897,184.58	\$ 4,074,396.31
16	Metro Cash Flow	\$ 4,400,000.00	\$ 4,400,000.00	\$ 4,400,000.00	\$ 4,400,000.00	\$ 4,400,000.00	\$ 4,400,000.00
17	Emergency/Nat. Disaster	\$ 1,245,624.95	\$ 1,370,246.45	\$ 1,778,601.55	\$ 1,644,364.06	\$ 1,299,061.53	\$ 1,358,132.10
18	Capital Expansion Reserve	\$ 1,000,000.00	\$ 1,000,000.00	\$ 1,000,000.00	\$ 1,000,000.00	\$ 1,000,000.00	\$ 1,000,000.00
19	Capital Replacement Reserve	\$ 1,000,000.00	\$ 1,000,000.00	\$ 1,000,000.00	\$ 1,000,000.00	\$ 1,000,000.00	\$ 1,000,000.00
20	Total Recommended Reserves	\$ 11,382,499.81	\$ 11,880,985.81	\$ 13,514,406.20	\$ 12,977,456.23	\$ 11,596,246.11	\$ 11,832,528.41
21	Fund Balance Over/(Unde)r Target	\$ 3,631,950.80	\$ 793,464.80	\$ (4,814,955.59)	\$ (6,623,005.62)	\$ (4,626,795.50)	\$ (3,568,077.80)
22	(Use)/Replacement of Reserves	\$ (515,810.39)	\$ (2,340,000.00)	\$ (3,975,000.00)	\$ (2,345,000.00)	\$ 615,000.00	\$ 1,295,000.00

Footnote: The (Use)/Replacement of Reserves – A negative value indicates use of reserves required to offset total expenses. A positive value indicates replenishment of reserves based on revenues exceeding expenses.

Cost of Service & Rate Design

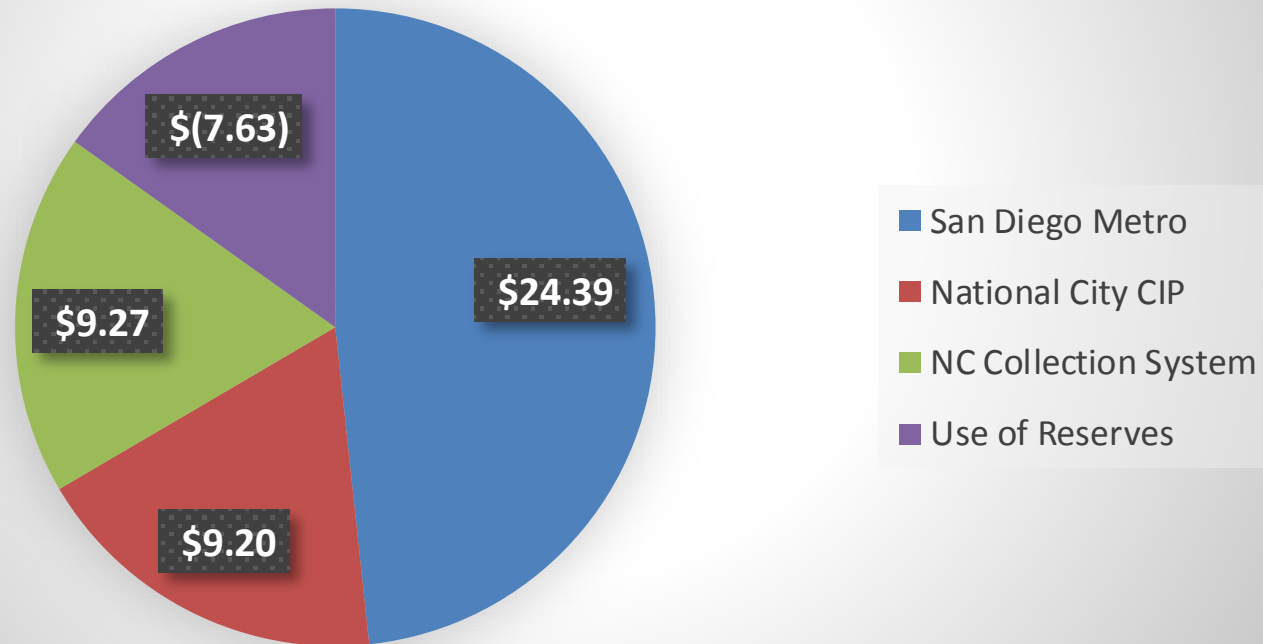
- National City's rate structure meets all industry standards and Federal and State regulations
 - No rate structure changes required or recommended
 - Only rate component change due to water conservation
 - Residential EDU decreased from 280 gpd to 240 gpd to equal Metro flow
 - 240 gpd is Metro PA standard gallonage for residential EDU
 - Used by County of San Diego and City of Lemon Grove

Rate Comparison: Current vs. Proposed +9.8% Revenue Requirement Per Year

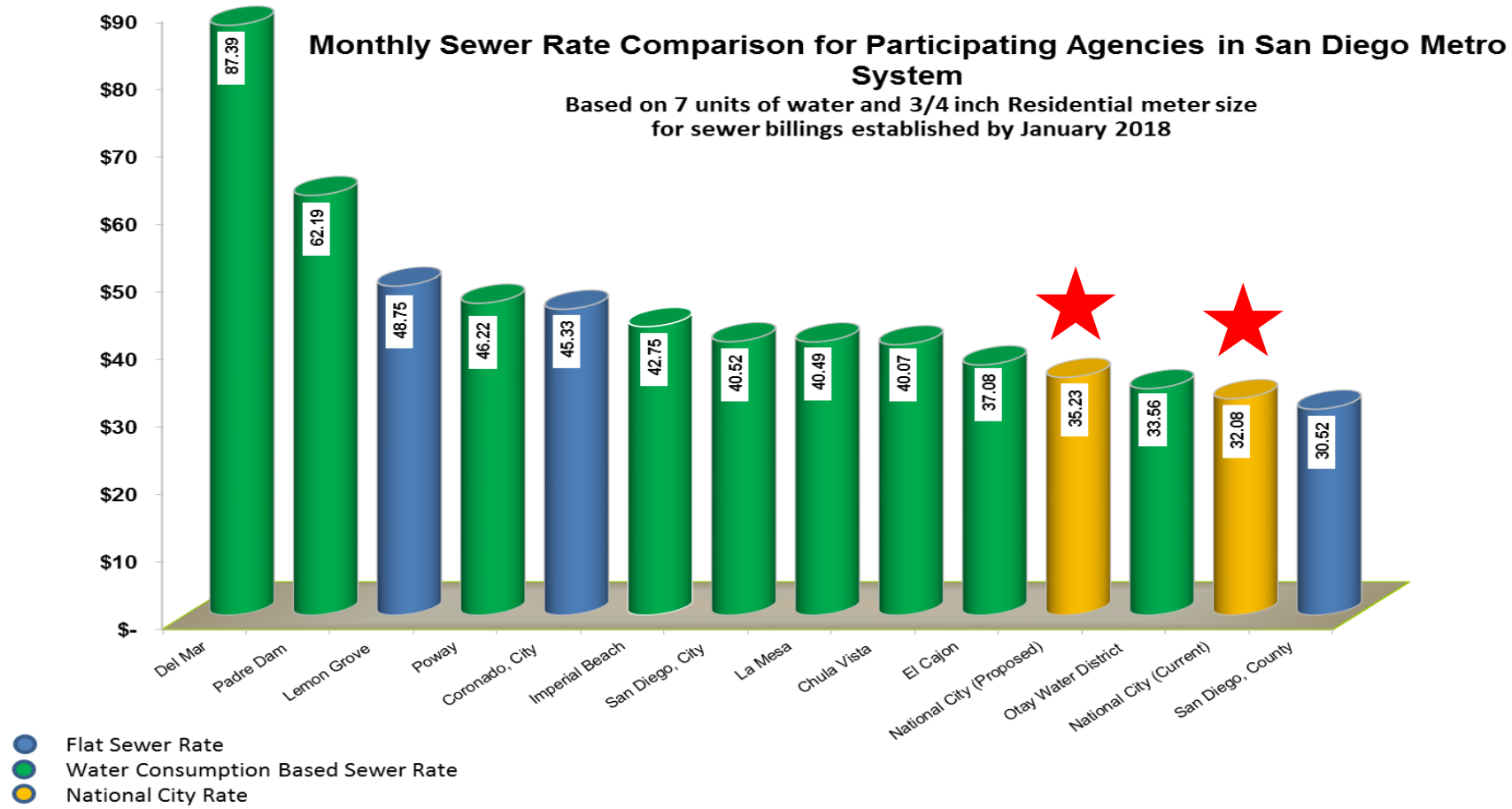
User Class	Current	2019	2020	2021	2022	2023
Residential: \$ Per Month						
Single Family	\$ 32.08	\$ 35.23	\$ 38.68	\$ 42.47	\$ 46.61	\$ 51.18
Multi-family/Condo	\$ 25.00	\$ 27.48	\$ 30.17	\$ 33.13	\$ 36.36	\$ 39.92
Mobile Homes	\$ 19.50	\$ 21.49	\$ 23.60	\$ 25.91	\$ 28.43	\$ 31.22
Non-Residential: \$ Per HCF						
Commercial - Low	\$ 3.03	\$ 3.61	\$ 3.97	\$ 4.35	\$ 4.78	\$ 5.25
Commercial - Medium Low	\$ 3.12	\$ 3.89	\$ 4.33	\$ 4.73	\$ 5.13	\$ 5.66
Commercial - Medium	\$ 4.09	\$ 4.69	\$ 5.37	\$ 5.76	\$ 6.13	\$ 6.80
Commercial - Medium High	\$ 4.90	\$ 5.48	\$ 6.40	\$ 6.80	\$ 7.12	\$ 7.95
Commercial - High	\$ 6.12	\$ 6.82	\$ 8.14	\$ 8.55	\$ 8.79	\$ 9.88

Components of FY2019 Single Family Rate

Components of FY 2109 Single Family Monthly Rate



FY 2019 National City Single Family Rate vs. FY 2018 Metro Agencies



Questions?

Note: This presentation is a companion item to “New Business” item titled, “Report on the Sewer Rate Study and proposed rate increases.”